

Date: 1/21/02 8:59 AM

RE: Draft plan

Dear Laura:

Thank you for the opportunity to review the plan. It is good in that it has a wide variety of initiatives, but as an investment plan per se, it makes CPA vulnerable. In this politicized environment, CPA's existence will be tested in the next few months.

On page one, I would add a bullet in the gaps found - a power market that is still structurally flawed. Unlike before, there is now no single party charged with the responsibility to assure reliable power supplies to customers. Many parties contribute to reliability, but there is no penalty easily assessed for blackouts. There is now no integrated resource planning, and as a result, new power plants are market-driven: conventional fossil-fueled plants near minority neighborhoods.

I think it is a mistake of concept to say that CPUC is not a financing agency. CPUC is responsible to set tariffs such that private capital is regularly available to regulated entities. If private financing doesn't flow, CPUC has failed its mission. I view CPUC as a financing agency. You will have to be careful to say that CPA is a financing agency and is self-supporting. Actually I don't understand that.

Financial plan:

The financial plan needs a footnote to explain every line. And an overall explanation. It does not explain how CPA would make money in activities that have a "value proposition" for all participants. For example, the total cost of power from projects is never presented, so one cannot see that CPA's involvement would be in projects that are economic. Each business that CPA is in should have a little mini-spreadsheet showing revenues and expenses, then aggregating into CPA total.

Is the idea that, by 2003, CPA invests 4 billion to participate in power plants generating \$50 million of revenues, and for which debt payments are the same \$50 million?

In 2002, I doubt CPA would get 2% broker fees on anything. It is not clear who pays CPA for what.

Administrative fees as revenue are explained what they are, but seem to me to be pie in the sky. I don't know is meant by admin costs on power plants. It says the CPA has ability to "contract for projects," which can mean many things (building, operating, buying power, administering, insuring). What does it mean in this case?

The financial plan does not tie to numbers in table "CPA portfolio resource mix." P. 25. In fact, the financial plan ties to nothing else in the document. Maybe I missed the links.

This section is really weak, and, unfortunately, it is the guts of the entire document.

Overall, I think the investment plan has maybe too much scope, and needs to focus on and describe more fully the specific investments and the returns therefrom.

Best regards, Dan

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